



**Association of State Floodplain Managers,
Inc.**

2809 Fish Hatchery Road, Suite 204 • Madison, Wisconsin 53713
www.floods.org • Telephone 608-274-0123 • Facsimile 608-274-0696

TESTIMONY

Legislative Proposals to Reform the National Flood Insurance Program

Subcommittee on Insurance, Housing and Community
Opportunity
House Committee on Financial Services

Sally McConkey, PE, CFM, D.WRE
Vice Chair
Association of State Floodplain Managers

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The Association of State Floodplain Managers (ASFPM) thanks this Subcommittee, Chairman Biggert and Ranking Member Gutierrez, for your attention to the need to reauthorize and reform the National Flood Insurance Program (NFIP). We very much appreciate your holding this hearing and appreciate the opportunity to comment on the discussion draft legislation and to share our thoughts on the current status of the NFIP, challenges the program confronts and opportunities to improve our nation's efforts to reduce flood-related losses.

We note that extensive work in both the House and Senate in the 110th Congress did not result in final action on reform legislation and that legislation passed by the House in the 111th Congress also did not result in final legislative action. Since then, other issues have emerged and actions have been taken by the Federal Emergency Management Agency (FEMA) that point to the need to update those earlier reform and revision proposals and to seriously consider further and possibly significant NFIP reform ideas.

Who We Are

The Association of State Floodplain Managers, Inc. and its 29 Chapters represent over 14,000 state and local officials and other professionals who are engaged in all aspects of floodplain management and hazard mitigation, including management, mapping, engineering, planning, community development, hydrology, forecasting, emergency response, water resources, and insurance for flood risk. All ASFPM members are concerned with working to reduce our Nation's flood-related losses. Our state and local officials are the federal government's partners in implementing flood mitigation programs and working to achieve effectiveness in meeting our shared objectives. Many of our state members are designated by their governors to coordinate and implement the National Flood Insurance Program, and many others are involved in the administration and implementation of FEMA's mitigation programs. For more information on the Association, our website is: <http://www.floods.org>.

Need to Reauthorize and Reform the National Flood Insurance Program

ASFPM believes the NFIP has been a useful federal program for addressing flood losses in the nation. For the first time, Congress recognized the need for a program that would consider where and how we develop in this nation, rather than engineering our rivers with levees and dams, with resultant loss of natural functions and resources that would naturally reduce flood losses. After 40 years, as with any program, a careful look at whether the program model still works is necessary. But those changes require due

deliberation and analysis, using information FEMA is now developing and getting input on significant policy options from all stakeholders.

A reauthorization of 2 – 3 years is important for the stability of the NFIP and the associated predictability is important for lenders, the housing industry, home buyers, policyholders and the Write Your Own (WYO) insurance companies which write flood insurance policies in partnership with FEMA. Numerous recent periods of hiatus in the NFIP's authorization have caused confusion, bureaucratic paperwork challenges, legal worries, frustration (which has resulted in one major insurance company pulling out of the WYO program) and delayed real estate settlements in a difficult period for the housing industry. Reauthorizations of several weeks or months do not provide stability, confidence and predictability.

While a longer period of authorization is important, it must be balanced with the need to fully consider many important reform ideas which will need further evaluation and consideration by the Committee. These, largely involving the status of levees and other infrastructure, the issuance of updated flood insurance risk maps and the affordability of flood insurance, lead to reform considerations that go well beyond the reforms of the earlier legislation.

ASFPM believes that a 2 – 3 year reauthorization would provide the needed reliability while allowing time for FEMA to complete its “Re-Thinking the NFIP” project, including presentation of significant policy and legislative options for management and operation of the NFIP and recommendations to the Congress and the Subcommittee for consideration and action.

Reflections and Questions

The Association of State Floodplain Managers concludes that the NFIP has been successful in meeting a number of its original objectives, but less so in reducing flood losses in the nation. The NFIP has:

- Required those living at risk of flooding to obtain flood insurance, sparing taxpayers from paying many millions of dollars in disaster relief, and enabling those citizens with flood insurance to more fully restore their lives to normalcy after a disaster. Since 1978, the NFIP has paid over \$36 billion in flood insurance claims.
- Prevented some unwise development and promoted flood hazard mitigation through local adoption of floodplain management ordinances. FEMA now estimates that \$2.3 billion in losses are avoided annually are due to compliance with these development standards. Additionally, over 20,000 communities have adopted floodplain management standards.

- Funded flood mitigation projects for older, existing at-risk structures. An independent study found that FEMA flood mitigation projects were found to accrue \$5 in benefits for every \$1 invested in these projects.
- Mapped approximately one million miles of at-risk floodprone areas. This backbone for the program influences insurance sales, floodplain management, risk communications, and mitigation ensuring that the information and tools are available to assist homeowners, business owners and local governments in making risk informed decisions.

On the other hand, too many Americans continue to build in at-risk locations, including residual risk areas behind flood control structures and high risk coastal areas; thus collective flood losses for the nation continue to increase in real dollars. In the first decade of this century, yearly flood losses have increased from \$6 billion to \$10 billion.

The hurricane seasons of 2004 and 2005 involved catastrophic losses well exceeding the average historical loss year, putting the program in debt to the Treasury. The debt now stands at \$ 17.75 billion. Due to two mild loss seasons and a favorable refinancing of the debt, the NFIP has been able to repay \$2 billion of that debt and the interest. However, full repayment of the debt is not a reasonable expectation because mild loss seasons cannot be expected to continue, the nation's flood risk is increasing due to development and more intense storms. Furthermore, interest on the debt will go up, and the annual program income is only approximately \$3.2 billion.

The poor condition of much of the nation's infrastructure, including levees, dams and other flood control structures, as well as stormwater facilities, has become more evident. More accurate flood maps now reflect accurate flood hazards if the flood protection of a levee is unreliable or indicates hazard changes from development and storm intensity, new maps show some areas as now in the 100-year flood hazard area. It is important to note that approximately as many properties are newly shown as out of a Special Flood Hazard Area (SFHA) as are newly shown as in the SFHA. The requirement to purchase flood insurance in areas newly shown to be at risk of flooding is highlighting concern about affordability of flood insurance. By the same token, if the new maps do not become effective, those property owners now shown out of the SFHA will still be required to purchase flood insurance.

ASFPM recommends that Congress consider clarifying the intended objectives of the NFIP so that the program can be evaluated accordingly. For example, should the NFIP be expected to accommodate catastrophic losses rather than the average historical loss year? If so, are there realistic, affordable program adaptations that can achieve that

objective? If not, would it be best to clarify that the program is not expected to cover truly catastrophic losses?

Other questions warrant examination. What adjustments are needed for the program to be a more positive factor in reducing flood losses in the nation? What adjustments are needed to help communities to act on better risk identification through improved maps? If the NFIP is to be a significant tool in an integrated flood risk management approach, how should it be altered to better support this objective? ASFPM has endorsed the following concepts:

- Integrate the NFIP with other federal flood risk programs, including the disaster relief program, Army Corps of Engineers, Environmental Protection Agency (EPA) and Natural Resources Conservation Service (NRCS).
- Identify cross-program policy conflicts and inappropriate incentives that increase risk.
- Build State floodplain management program capability and capacity to work with the 21,000 participating local jurisdictions
- Delegate the floodplain management and mapping elements of the program to qualified states, similar to programs managed by the EPA and Department of Transportation.
- Identify incentives and disincentives for state and local governments to make the program more effective, since local decisions determine how much development will be placed at risk of flooding.
- Evaluate the NFIP-funded mitigation grant programs to determine whether they are effectively addressing the most high-risk structures.

Other questions that need to be addressed include:

- Should the flood maps better display the flood risk so that communities and citizens understand that the flood risk does not stop at the line on a map – and that considerable risk exists beyond the “100-year” floodplain? (The average home is occupied for more than 100 years, virtually assuring that every home in the 100 year flood hazard area will flood in its lifetime).
- Should insurance be required in residual risk areas behind levees and below dams?
- Should insurance be required in a broader area, such as the 200-year or 500-year floodplain? Should all homeowner policies be required to cover flood?

- Should critical infrastructure like hospitals, fire and police stations and water supply and treatment plants be regulated based on a larger flood, but one the nation experiences somewhere every year, such as the 500-year floodplain?
- Should flood insurance policies be long-term (20 years or more) and tied not to the owner but to the property, regardless of property transfers?
- Should some non-insurance means be identified, such as flood insurance vouchers, to assist lower income property owners and renters with the cost of flood insurance?

Broad Recommendations

The nation must carefully balance the issue of who benefits and who pays for development at risk. It is estimated that there are 130 million housing units in the U.S. Of that about 10 or 11 million are in flood hazard areas. Of those in flood hazard areas, roughly half carry flood insurance. This means 90% of the population does not live in identified SFHAs, but continues to pay a large amount each year for disaster relief for flooding, rebuilding damaged infrastructure in flood areas, and may have to cover the \$17.75 billion debt of the NFIP. Yet those same taxpayers obtain few, if any, of the benefits of that development. This points out the need to tie program outcomes of the NFIP to other programs like disaster relief programs and programs of HUD, DOT, USDA and others.

ASFPM has identified and grouped several recommendations for consideration by the Committee below.

1. Create a comprehensive national flood risk management framework. To actually reduce flood-related loss of life and property in the nation, we must move beyond the current NFIP minimum approaches toward a true flood risk management framework with the nation's policies and programs. A comprehensive flood risk management program recognizes that:

- Managing flood risk is a shared responsibility between individual, private sector, community, state and federal government;
- Flood risk is not isolated to the 100-year flood hazard area but is rather a continuum of risk that crosses lines on a map; far beyond the shaded area on the flood map;
- Development and other activity outside the 100-year floodplain but in the watershed impacts flood levels—if we only manage activity in that 100-year

floodplain, we miss opportunities to save lives and reduce flood damages and impacts;

- All structural protection measures will fail or be overtopped at some point by some flood event;
- Managing flood risk requires a mix of measures from avoidance to retreat from high risk areas to consideration of structural measures. Selection of only one measure, such as a levee, leads to severe losses in catastrophic events. Levee failure, high storm surge and large flood (500-year) events have shown the need for a combination of approaches including elevation, room for rivers, insurance and structures;
- Flood levels will increase in the future because development increases runoff; and storms are intensifying;
- Flood risk will increase as the natural resources and functions of floodplains are altered by development since this destroys the natural system that reduces the negative impacts of flooding; and
- Flood risk management includes concepts such as identification of flood risk, community planning to steer development away from areas of high risk, basing flood insurance on actual risk, vigorous promotion and support of hazard mitigation actions, and enabling citizens to better recover from disasters by being insured to reduce their financial risk.

The U.S. Army Corps of Engineers has adopted the comprehensive flood risk management approach in many of its programs at the national level, but for this approach to be successful for the nation, FEMA must also actively promote the concept and integrate its programs for the NFIP, mitigation and disaster relief internally, and integrate them with programs of the Corps and other agencies that impact flood risk.

2. Consider bold reforms to address current flood insurance issues. Flood insurance should gradually move toward being actuarially sound to reflect actual risk and enable market-based financial decisions. We recognize that there are affordability problems for some citizens currently living in at-risk areas; this is more prevalent in older riverine areas than in recently developed coastal areas or some newly developed areas behind levees. The de-accreditation of levees and more accurate flood maps have highlighted the affordability issue. We do not support efforts to delay issuance of flood maps, withholding accurate information about flood risk from citizens living and working in hazardous areas. We suggest that this issue presents challenges, but ones that can lead to constructive new growth and adaptation for the NFIP if done correctly.

An insurance program with subsidies is not an insurance program. We understand the need to assist low income people with insurance premiums for some specified length of time, or better yet, to assist them with mitigating their property - upon demonstrated need. One alternative would be a program of flood insurance vouchers to assist with purchase of flood insurance issued through a means-tested program could be administered by the Department of Housing and Urban Development. An analysis might show it would be less costly for the taxpayer to pay for flood insurance vouchers for low income property owners rather than have the taxpayer continue to pay disaster costs from the Disaster Relief Fund every time that a community floods. Insurance can also be applied toward mitigation of their property after a disaster.

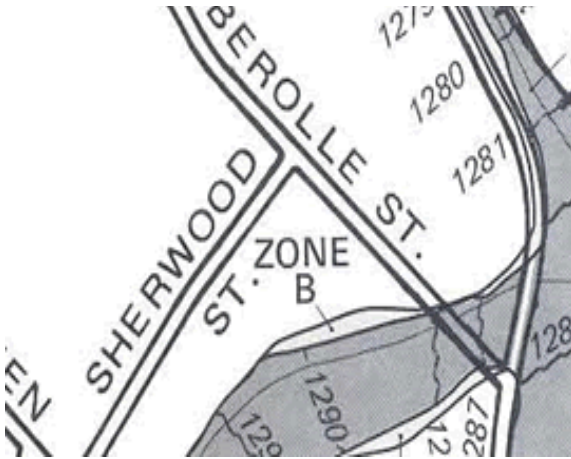
If short term relief is provided using the NFIP-- through delayed mandatory purchase of insurance, extension of time when policies can carry Preferred Risk rates, or phase-in of actuarial rates; it must be recognized that none of these are appropriate long term solutions—somebody in the nation will pick up those costs, mostly the federal taxpayers. In conjunction with such short term relief, FEMA should provide general information about actuarial rates so people see what their true risk is, and at the same time, provide substantial information about mitigation actions and how much each action will reduce actuarial premiums in the future.

Another alternative would be the the development of group flood insurance which could be developed by FEMA for mapped flood hazard areas and areas mapped as protected by a levee, allowing a group policy to be purchased by the levee district or other local taxing entity for all residents of the area, thereby keeping costs down. Remember, the more policies there are the lower the premiums everyone pays.

3. Recognize the need for a continuous, authorized long term flood mapping program. Flood mapping has changed significantly over the life of the program. Better technology, improved methods, and the creation of risk assessment techniques not only allow for the identification of flood hazard areas but also enables the creation and distribution of data that allows business and home owners to make appropriate risk decisions. Map Modernization recognized that good mapping was important to many facets of community actions such as warning and evacuation, highway construction, location of hospitals, etc, and was broadly supported by engineers, realtors, home builders, environmental and many other organizations that recognized the multiple benefits of having modern, current, and maintained flood maps.

Flood mapping today is a far cry from flood mapping 30 years ago. In those days, flood maps showed the boundary of the flood hazard area and a base flood elevation that made sense to surveyors and local officials, but not many other people. Figure 1 illustrates one such map.

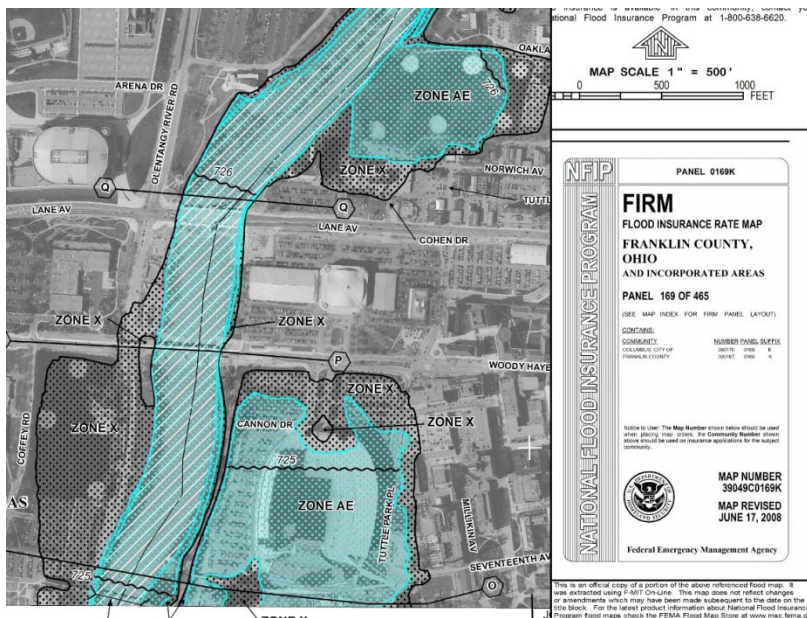
Figure 1. Old Style Flood Insurance Rate Map (FIRM)



The data shown on older FIRM's, while accurate made it difficult to see the locations of individual structures in relation to the floodplain.

In this past decade and with FEMA's Map Modernization program, many of the nation's flood maps were converted to a common and digital format, improved with new base mapping, and some new engineering studies updated the flood data. These maps, shown in Figure 2 became much more usable for the general public.

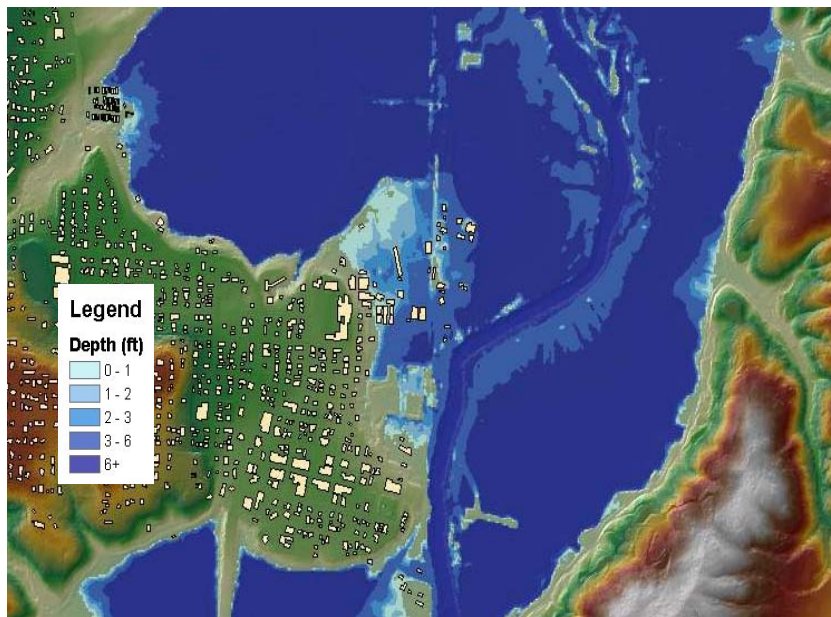
Figure 2. New Style FIRM



These new style FIRMs show individual buildings, streets and are in a format that is easily accessible and electronically available so more people can use them.

The most recent, and promising version of FEMA's mapping program is Risk MAP. Because it is less than two years old, products are just beginning to be generated. The significance of FEMA's Risk MAP program going forward is that it marries flood mapping with flood risk assessment information. Three new products, a *Flood Risk Map*, *Flood Risk Report*, and *Flood Risk Database* will be provided in addition to the FIRM and Flood Insurance Study. Why is this important? Because the additional data provided under Risk MAP will allow homeowners, business owners, and government officials to take actions to reduce flood risk. For example, loss information provided in the flood risk report can assist local emergency managers in prioritizing where to focus resources during and after a flood. Flood depth grids use darker to lighter shading in the 100 year floodplain to show how deep the flood water will be at a given point on the ground (Figure 3).

Figure 3. Flood Depth Grid



As a result of the continuous improvement in FEMA's flood maps, the maps today are more accurate, provide better and more usable data to communities and citizens, and are more portable than ever before. The Risk MAP process is also designed to have more input and meetings with communities and citizens so the map products will better reflect community needs. While ASFPM acknowledges that there will be some ongoing mapping issues, conceptually, FEMA's Risk MAP program is an appropriate future

direction for flood risk mapping. ASFPM recommends that a permanent authorized flood mapping program be included in any NFIP legislation.

Related to flood mapping, there have been recent concerns related to the mapping and accreditation of levees. First, it is important to note that flood risk exists behind levees. This position is supported not only by ASFPM but also by FEMA, US Army Corps of Engineers and other organizations such as the American Society of Civil Engineers. This risk exists regardless of whether FEMA maps areas behind levees as flood hazard areas or not. The risk is partially borne by those that choose to occupy that area but along with that decision it drags along the tax payers that pay for disaster assistance and fund the rescue missions when that levee is overtopped or fails. While the failure or overtopping of an individual levee may not happen frequently, every year there are multiple examples of these kinds of failures inevitably resulting in a taxpayer bailout. It is time to better recognize, manage, and more directly apportion the cost of this behavior to the individual that opts to live behind a levee as well as the community who benefits from development and the general taxpayer. ASFPM understands that FEMA is working on various approaches to how to characterize the flood risk that exists behind levees, but ASFPM firmly believes that flood risk behind levees is real, it should be mapped, everybody informed and flood insurance should be required in those areas.

4. Make improvements in floodplain management and hazard mitigation elements of the NFIP. Hazard mitigation programs under the NFIP were established after the 1994 Reform Act in recognition of the need to address older, at-risk structures. After the 2004 Reform Act, two additional programs were created focusing on repetitive loss properties. Such properties, while comprising only 1% of the policies under the NFIP result in over 30% of the claims. Of these two programs, the Severe Repetitive Loss Program (SRL) has been underperforming. ASFPM believes the reason for this is the extremely prescriptive and nearly unworkable statutory language authorizing the SRL program. FEMA had nearly no latitude to write implementation rules to allow the program to function and as a result, the program has been significantly undersubscribed since inception. The issue of repetitive loss properties is as significant today as it was in 2004 and ASFPM recommends that as part of any NFIP reform package, the SRL program be significantly streamlined and focused on mitigating repetitive loss properties.

For the second time in ten years, FEMA has had a call for issues that includes a discussion of minimum land use and development standards of the NFIP. While we understand it takes a long time to identify potential changes and begin rulemaking, ASFPM is frustrated that the minimum building standards of the NFIP haven't been changed or improved in over 20 years. In that time period, new data and several studies, including a comprehensive evaluation of the NFIP and stakeholder input has suggested several sensible enhancements to these standards that will further reduce flood losses and meet the intent of the NFIP. The Subcommittee should have an interest in knowing

FEMA's plan for updating the minimum standards of the NFIP and encourage periodic reporting of progress.

Perspectives on the National Flood Insurance Program

FEMA reports that the NFIP has been self-supporting for 20 years. From 1986-2005, prior to Hurricane Katrina, income from policyholders covered claims and all operating expenses, including salaries and expenses of the Federal employees who administer the NFIP and floodplain management programs. From time to time the NFIP exercised its authority to borrow from the U.S. Treasury when claims exceeded short-term income. Importantly, the program was praised for its ability to repay debts ahead of schedule and with interest. This would seem to be the way Congress intended the program to function. The original framers did not require the NFIP to set rates for truly catastrophic flood year associated with single extreme events like Hurricane Katrina or in a year where there cumulative large events that in total were catastrophic, or to have reserves to cover the fiscal impact such events would have on the program. A significant, often unrecognized, and difficult to measure benefit of the NFIP is the number of decisions people have made to build on higher ground and the damage that doesn't occur because buildings have been built to resist flood damage. FEMA does estimate that meeting the NFIP standards prevents over \$2 billion in damages each year. Perhaps the original framers considered it reasonable that taxpayers contribute to payment of claims after extreme events that exceed the NFIP's capacity to pay as part of the bargain for long-term overall improvement in the way we manage flood losses—perhaps Congress could clarify this.

The NFIP has multiple goals, and providing flood insurance in order to minimize direct government subsidy of flood damage is one of the goals. The consequence of having fewer people insured against known risks would likely be greater reliance on taxpayer funded disaster assistance and casualty loss tax deductions. Striking the balance between a fiscally sound NFIP while having premiums that are affordable – but that do not reward or encourage development in high flood risk areas – is the challenge now facing Congress and the nation.

The National Flood Insurance Program is now 42 years old. It was created in 1968 by the Congress following several major studies in the 1950s and 60s, after which studies concluded that the private sector did not offer insurance coverage for flood because only those who had actually flooded would buy policies, contrary to a normal insurance model which assumes a broad spreading of risk to cover losses. The lack of information showing which properties were likely to flood added to the private sector dilemma, which is less of a challenge now that FEMA produces flood maps for 21,000 communities. The concepts embodied in the NFIP were designed with the idea it would save the taxpayers' money in disaster relief by requiring those living in at-risk locations to pay something to cover their own risk, and to enable them to more fully recover from flood damage than

they could with only disaster relief. The assumption was that this would reduce flood losses over time by requiring local regulation of development in flood hazard areas as communities voluntarily agreed to participate in the program in order to make flood insurance available to community residents and businesses.

The NFIP has gone through various stages of growth and adaptation involving more, then less, then again more involvement with private insurance companies and agents. After its first five years, Congress added mandatory purchase of flood insurance in identified flood hazard areas. By 1979, the program moved from the Department of Housing and Urban Development (HUD) to the newly established Federal Emergency Management Agency (FEMA). Initially some 70% of insured properties had discounted policies because they were “grandfathered” since they were built before the flood hazard area was identified. Now about 23% of insured properties have these discounted rates. Many newly developed properties have been built either in safer locations outside the 100-year floodplain or built to NFIP standards (elevated to the 100-year flood level) to mitigate possible flood losses.

During the 1980s, the goal of making the program self-supporting for the average historical loss year was achieved, but the premiums did not provide sufficient income to develop and maintain accurate flood maps for 21,000 communities. There were no Congressional appropriations for the program from 1986 until 2003, when it was agreed the nation needed a major map modernization effort requiring appropriated funds. Most of the nation’s flood maps were found to be 10 to 20 years old, not reflective of massive watershed and floodplain development, and therefore not accurately representative of actual flood hazards.

A major report following the Midwest floods of 1993 found that only 10-15% of damaged properties had flood insurance. This led to another set of improvements in the National Flood Insurance Reform Act of 1994, including stricter compliance requirements for lenders and new means of encouraging and supporting mitigation through the Increased Cost of Compliance insurance coverage, establishment of the Flood Mitigation Assistance program and authorization of the Community Rating System to make lower premiums available in communities taking significant steps beyond national minimum approaches to mitigate risk. The Flood Insurance Reform Act of 2004 Act made a number of improvements to insurance agent training and consumer provisions, and enhanced and developed programs to address the problem of repetitive flood losses.

A major and the first ever full evaluation of the NFIP was commissioned by FEMA in 2000 and was led by the American Institutes for Research with contributions from other research entities. That report was delivered to the Congress in 2007 when the Congress was well on its way to development of the '07 and '08 House and Senate versions of flood insurance reform legislation. As a result of this unfortunate timing, the findings

and recommendations of this significant NFIP Evaluation were never fully examined by the Congress.

The House passed a bill in 2010 that was derivative of the 2007 House passed bill. There has been no significant legislation enacted to reform the NFIP since 2004.

Observations on the Discussion Draft

The Discussion Draft developed by the Subcommittee includes a number of important and helpful changes to the NFIP and to the bill passed by the House last summer. We note that these constitute revisions rather than reform and would urge the subcommittee to change the title to reflect this and to plan on in depth consideration of significant policy and legislative recommendations for the NFIP anticipated to be presented to the Congress by FEMA early this summer. While there are certainly exceptions, a number of the provisions of the draft are likely to increase the exposure of the taxpayers for costs from flooding, instead of ensuring that those costs are borne by those who live or build at risk. This causes concern for ASFPM.

We understand that the modernization and updating of FIRMs, the de-accreditation of many levees and questions about mapping of flood risk associated with them and with non-levee embankments and the affordability of flood insurance have generated much concern among citizens and their Congressional representatives. Additionally the current debt to the Treasury resulting from catastrophic losses raises concerns about the structure and viability of the program. These challenges offer an important opportunity to make major reforms to the program to better reduce flood losses, protect citizens living at risk of flooding and protect the American taxpayer. While this bill cannot address all of these challenges in the short time before the program's current authorization will lapse, we think it is important to note that the discussion draft does not address key underlying issues:

- 1) Affordability concerns which are interfering with risk identification, mitigation and protection of property through insurance which provides for a speedy, more full recovery after a flood disaster.
- 2) Catastrophic losses, the current and potential additional debt to the Treasury and whether or not the NFIP should be structured to meet that level of need.

Length of Authorization (Section 2)

We urge the Subcommittee to reauthorize the NFIP for 2 or 3 years rather than the 5 years included in the draft. This would ensure a stable authorization period, avoiding frequent program lapses, while also ensuring that timing will facilitate full consideration of FEMA's expected recommendations for the future direction of the program.

Mandatory Purchase Delay Modifications (Section 3)

ASFPM appreciates that the proposal attempts to modify and tighten previous proposals to delay the mandatory purchase requirement for properties in areas newly mapped as floodplain; however, we also find it highly problematic from an implementation standpoint as written. H.R. 5114, passed by the House last summer, had provided a 5-year delay for all such areas nationwide to be followed by a 5-year phase-in of actuarial premium rates for those properties. ASFPM objected to the delay of mandatory purchase because if the risk is known and documented, it is not appropriate for the federal government to help people ignore their risk. This not only does not protect those people, but gives the burden of assistance in the event of a flood disaster to the general taxpayer. While we suggest there be no delay in mandatory purchase we do appreciate the subcommittee has attempted to target this exemption more tightly to specific kinds of situations for a more limited period of time. We note that including this kind of detailed process in legislation is always problematic for agency implementation.

From an implementation standpoint we believe the burden and cost to implement this measure will be significant. What exactly is an “area” as used in the draft? Conceivably an area could be as small as a single lot or property leading to potentially tens of thousands of exceptions that would need to be tracked, each with its own schedule of 1, 2 or 3 years. Based on current practices, it appears that for every mortgage transaction it would be necessary to do a determination based on the current map, a determination based on the previous map, and then some type of research to determine if an exception is in place for that specific property (the ease of which will be directly related to the new funding provided by congress to track this in a data base by the NFIP). This may result in increasing the cost to every consumer who secures a mortgage and the ability to process a timely determination may slow closing. The Committee might wish to explore this issue with the lending and determination industries.

Reforms of Coverage Terms (Section 4)

ASFPM agrees with the proposal to use differentiated deductibles for pre and post-FIRM properties. The use of a higher deductible for pre-FIRM properties seems to be a reasonable move to, in effect, reduce the subsidies for such properties. Our lack of comment on other elements of this section should not be construed as either support or concern.

Phase-In of Actuarial Rates (Section 5)

The perceived need for this provision is strongly related to concerns about affordability of flood insurance. We understand the motivation to lessen the impact of a newly imposed flood insurance requirement, but must point out that the National Flood Insurance Fund will have full exposure for coverage of claims from the affected

properties without the benefit of full premium income. If there is no insurance, the disaster relief program is exposed for those damages. Both of these then expose the federal taxpayers.

We would prefer that the Subcommittee consider another method of addressing the affordability issue outside of the insurance mechanism, such as a means tested flood insurance voucher system to be handled by the Department of Housing and Urban Development. We suggest that the Subcommittee draft include at least a study of the economics of providing lower income property owners with vouchers to assist with the purchase of flood insurance versus the assumption by taxpayers of the costs of disasters affecting lower income citizens. Consideration of how insurance will speed restoration of economic vitality and restoration of citizens to their homes should be part of that study.

It is also important to recognize that many levees will not be brought up to meet the NFIP standards. ASCE estimates that it will take \$50 billion to simply repair the existing levees in the nation that are not properly maintained. Funding for that is not available now, and likely will not be for decades, if ever. As such, should Congress consider how to protect the financial means of those living behind levees. Might it be less expensive to provide insurance than to try to bring all levees up to some standard they do not meet. In the meantime, the levees will provide whatever protection they can for some events, but we also recognize they will overtop or fail in large events?

Under “Phase-In of Actuarial Rates for Certain Properties, we agree with all listed categories with the exception of (6) Homes with Multiple Claims. The 2004 Flood Insurance Reform Act established the programs for dealing with repetitive loss properties. If deemed cost effective for the National Flood Insurance Fund, an offer of mitigation assistance is to be made to such properties. If such an offer is refused, the penalty would be incremental movement toward actuarial rates. Including all severe repetitive loss properties in moving to actuarial rates would capture even repetitive low-level losses, because the trigger for SRL designation is 4 losses, even if low cost. This provision could be seen as punitive.

Under “Prohibition of Extension of Subsidized Rates to Lapsed Policies,” we would question how FEMA could determine whether or not the lapse resulted from a “deliberate” choice. Further, we are concerned that this increase to actuarial rates for re-purchase of a lapsed policy could serve as a significant disincentive to reinstate coverage.

Technical Mapping Advisory Council (Sections 6 and 7)

ASFPM very much supports the re-establishment of a Technical Mapping Advisory Council (TMAC). Such a Council was established, also for a 5 year period, by the Flood Insurance Reform Act of 1994. The report and recommendations of that Council were

influential in the development of a Map Modernization Presidential Initiative implemented in 2003. That Council's role was advisory and we recommend that the role of this new TMAC also be substantively analytical and advisory.

The role of the TMAC should be as an advisory council to provide stakeholder input to the needs and uses of maps to assist FEMA in improving its processes. The listed membership include some mapping experts, but most members are not flood mapping experts, so actually setting mapping standards for FEMA would be outside their experience and expertise, while providing professional advice would be very appropriate and helpful. Given rapid changes in mapping technology, this proposed system would not allow FEMA the flexibility needed to incorporate new methodologies and move beyond standards that may be quickly overtaken by new developments. We also suggest that the draft language reiterates the TMAC provide recommendations on the "best methods" in a number of areas. We would urge that the language needs to include guidance that the solutions be also practical, cost effective, and meet the mapping needs for the program. Our concern is, (and this being from a membership that includes a large number of Professional Engineers), that if the goal is to develop the best, we can spend significant resources to develop the best but in the end the answer may not be significantly different than a more cost effective approach.

We urge that the membership list be amended to include "a representative of State national flood insurance coordination offices". This category of membership was named in the 1994 Flood Insurance Reform Act creating the first TMAC and was also included in both the House and Senate passed versions of flood insurance reform legislation in 2007 and 2008 respectively. It might also be useful to consider the addition of State hazard mitigation officials as well since the current and future focus of flood mapping includes risk assessment information.

Section 7 includes perhaps too much prescriptive detail, but we suggest that it be more reflective of information needed by communities and mitigation planners for performing their jobs of reducing flood losses. For example, the section provides for mapping only the 100 year and 250 year floodplains. FEMA and its partners would benefit from inclusion of the 500 year floodplain as well as the 2, 5, 10, 50 year floodplains. The 250 year is not a commonly used value.

Privatization Initiatives (Section 8)

ASFPM has always been supportive of periodic program evaluations and exploration of alternative approaches. While ASFPM supports more in-depth studies of privatization, we must also be clear that the NFIP is not just an insurance program and previously in this testimony have highlighted successes related to the development standards of the NFIP. Any such movement in this area must ensure that there is a mandatory *quid pro*

quo for adoption and enforcement of comprehensive floodplain management standards. We would urge that Congress direct this study to include data from contemporary international attempts to implement private flood insurance such that we can incorporate the lessons learned.

Community Building Code Administration Grants (Section 11)

ASFPM is supportive of grants specifically to train local building officials in the applications of the NFIP. However, funding staff and other operational elements in order to pay for the inspection of development that primarily benefits that community does not seem appropriate. Many communities across the nation charge impact fees and permit fees such that development pays its own way and this principle is equally sound when applied to the inspection of a variety of issues in the community including the NFIP. Providing some incentive for communities who do this would seem appropriate, and how to do that is the issue. Perhaps through sliding cost share for mitigation grants or disaster relief. It would need to require not only adoption of the best codes, but full enforcement of those codes.

Other Recommendations

If the Committee is to be able to consider subsequent major reform of the NFIP, we would suggest that two other studies would be in order in addition to the privatization initiatives already provided for in this discussion draft:

- 1) A study of the feasibility of group insurance -- for entire communities, for identified Special Flood Hazard Areas (SFHAs) or for residual risk areas behind levees, and
- 2) An economic analysis of the overall effect on taxpayer funds of providing flood insurance vouchers to low income property owners as opposed to providing assistance through disaster relief funds. Such an analysis should include aspects such as restoration of economic vitality and speed of rebuilding, repair and restoration.

The Severe Repetitive Loss Program is one of two mitigation programs within the NFIP focusing on repetitive loss properties has not been effective in utilizing available funds. It appears that this is largely because the statutory provisions establishing the program were so prescriptive that FEMA's ability to design an effective program was limited. Because this program is needed to assist in reducing the approximately \$200 million per year drain on the National Flood Insurance Fund, we recommend that the Subcommittee investigate the impediments to effective functioning and develop legislative corrections.

Conclusion

ASFPM is grateful for the opportunity to share our thoughts with the Subcommittee and hope they will be helpful as you move forward with legislation. We will be glad to respond to any questions and to assist the Subcommittee in any way that we can. For further information or assistance please do not hesitate to contact me (sally@illinois.edu), ASFPM Executive Director Larry Larson (larry@floods.org), or ASFPM Washington Liaison Merrie Inderfurth (inderfurth@aol.com).